INFORMED BUDGETEER

ANOTHER LOOK AT FEDERAL HIGHWAY SPENDING

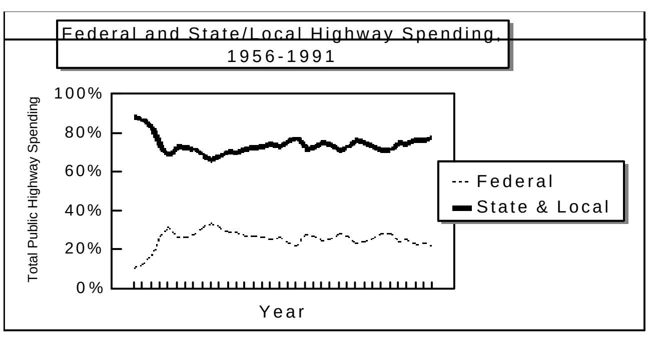
- With the current reauthorization of the Intermodal Surface Transportation Efficiency Act (ISTEA), much of the focus has been on the level of federal highway spending, especially by those who want to increase highway spending to levels above the Budget Agreement.

- SBC staff have been looking at CBO data showing the amount and percent of federal highway spending compared to state and local spending. What these numbers show may surprise even the most ardent supporter of increased federal highway spending.

- CBO's report, *Public Infrastructure spending: Analysis of the President's Proposals for Infrastructure Spending form 1996 - 2000*, shows federal spending accounts for only 22% of all highway spending in the U.S. When the federal-aid highway program began in 1956, the federal government's share of highway dollars was only 11%. This figure peaked in 1965, when 33% of all highway spending came from the federal government. 1965 marked the high point of construction of the interstate highway system.

- Federal spending on highways grew at an annual rate of 9% since the enactment of the Federal-Aid Highways Act of 1956, while state and local spending grew at 6% annually. However, beginning in the 1980's state and local spending has been growing faster than federal expenditures -- 7% annually versus 4%.

- Since we expect the federal role in highway spending to continue for at least the foreseeable future, (at least six years by Senate standards) we also expect the percent of federal funds used in all highway construction to also remain constant. Federal highway funding, while an important component of public infrastructure, is a small share of the total picture.



SOURCE: CBO Public Infrastructure paper

HAPPY NEW FISCAL YEAR
FAREWELL TO FY 1997'S DECLINING DEFICIT

- **As fiscal year 1997 draws to a close, our fiscal deficit should fall to its lowest level since 1974.** In its summer update, CBO forecasted that this year's deficit would be $34 billion. However, softer than expected outlay growth in August could see the FY97 deficit drop to roughly $30 billion by SBC staff calculation.

- Such a figure is considerably lower than the $115 billion deficit CBO forecasted in March. Higher than expected revenues account for roughly 85 % of this year's drop. FY97 revenues grew at roughly 8.6 %, versus a 5.6 % rise in nominal GDP. In March, CBO had expected FY97 revenues to grow by 3.9 %. This year's strong revenue growth is a reflection of above-trend economic growth, along with US asset market strength and subsequent capital gains realizations.

- Yet, 1997 is not a unique year -- FY97 is the fourth year in a row that revenue growth has outstripped GDP growth by at least 2 %. This means that taxes are taking a steadily rising share of national output. Since FY92, the ratio of federal receipts to GDP (on a budgetary basis) has risen from 17.8 % to an estimated 19.8 % in FY97. **Federal taxes' are now at their highest share of the economy since 1945 and the World War II buildup.** This clearly highlights the need for the recently passed Taxpayer Relief Act and for further tax relief/reform for all Americans going forward.

- However, lest anyone argue that the budget has been balanced on the back of taxpayers, it is important to look at the trend in outlays as well. Over the same period, **from FY92 to FY97, the share of federal outlays to GDP fell from 22.5 % to an estimated 20.3 %. This is the lowest outlay share since 1979.** It is clear that Congress' efforts to hold the line on discretionary spending has paid dividends. Such spending reductions have helped to fuel the type of economic growth that we now enjoy and which is helping to generate the recent revenue windfall.

- The Balanced Budget Agreement will further the decline in the ratio of federal outlays to GDP. By 2002, this ratio will have fallen to 18.8 % -- roughly the level which prevailed for most of the early 1960s.

1998 TAX BRACKETS

- The Consumer Price Index for August 1997, released Tuesday, was the last piece of information needed to index next year's individual income tax brackets. For *Bulletin* readers who like to plan ahead, the following is an approximation of the individual tax parameters for 1998.

- The personal exemption amount will increase $50 in 1998, from $2,650 in 1997 to $2,700 in 1998. The standard deduction for individuals will increase $100 to $4,250 and the standard deduction for couples will jump $200 to $7,100 in 1998. A taxable income of $278,450 will place you in the top marginal tax bracket of 39.6 % in 1998

1998 TAX PARAMETERS

Personal Exemption $2,700			
SINGLE: Rate Brackets			
Taxable Income	Rate	Standard Deduction	
$0-$23,500	15.0%	Regular	$4,250
$25,350-$61,400	28.0%	Elderly/Blind	$1,050
$61,400-$128,100	31.0%		
$128,100-$278,450	36.0%	Exemption Phase-out	$124,500
$278,450 & Over	39.6%	Itemized Phase-out	$124,500
JOINT: Rate Brackets			
Taxable Income	Rate	Standard Deduction	
$0-$42,350	15.0%	Regular	$7,100
$42,350-$102,300	28.0%	Elderly/Blind (Each)	$850
$102,300-$155,950	31.0%		
$155,950-$278,450	36.0%	Exemption Phase-out	$186.800
$278,450 & over	39.6%	Itemized Phase-out	$124,500

- The maximum EIC for families with one child will be $2,271 in 1998 -- $58 more than in 1997. The maximum credit for two or more children will rise by $100 in 1998, from $3,656 to $3,756.

- With one child the EIC is completely phased out at $26,463 in 1998 (compared to $25,781 in 1997). With two or more children the EIC is completely phased out at $30,085 in 1998 (compared to $29,290 in 1997).

EARNED INCOME TAX CREDIT

Type of Return	Maximum Eligible Earning	Maximum Credit	Breakeven Point
Childless	$4,220	$323	$9,500
One Child	$6,330	$2152	$25,078
Two or more Children	$8,890	$3556	$28,495

VA TOBACCO ILLNESSES: $10 - $15 BILLION A YEAR

- The Department of Veteran Affairs General Counsel has determined that veterans are entitled to benefits if they suffer health problems from nicotine dependence that began or became worse during military service.
- CBO has determined that roughly 3.5 million veterans could become eligible for disability and medical benefits. In addition

million surviving spouses of veterans could become eligible for dependency and indemnity compensation (DIC).

- CBO estimates that the long-run costs could reach $10 to $15 billion or more. This means that compensation caseloads will double. Of course the short term costs are constrained by personnel and resources available to process the influx. How fast VA could reach the long run or steady state costs would depend on the speed of adjudicating claims.

- The costs of this decision come from four areas: Disability Compensation, Survivor Compensation, Medical Care, and Administrative Costs. The majority of the costs come from Disability Compensation and CBO estimates a cost of $10 billion annually if just half of veterans with smoking related diseases successfully apply for benefits.

- Additionally, if twenty percent of veterans turn to the VA for medical care, for which they are essentially entitled, the medical system would need an extra $2 billion in appropriations annually.

- Finally, roughly 12 million veterans have died since World War II. Based on estimates from the Centers for Disease Control, twenty percent of those who have died could be tobacco related. CBO estimates that as many as 1 million surviving spouse could be eligible for compensation. If 10% of the spouse were successfully awarded DIC benefits, costs could be $1 million annually. CBO admits that the cost survivor's benefits is difficult to estimate and the potential cost is significant. In fact the first tobacco related compensation was awarded to a survivor.

EUROPEAN PUBLIC RETIREMENT PROGRAMS

- The Senate Budget Committee is planning to hold a hearing on October 23rd to examine European public pension programs. The hearing will be the second in a series of hearings examining recent economic and security developments in Europe.

- As Europe moves toward monetary union (EMU) in 1999 and countries try to meet the Maastricht treaty's strict fiscal criteria, expensive public pension programs are getting increased scrutiny. Like the United States, most of Europe is facing massive increases in publicly financed pensions as their populations age. In fact, in many European countries, their "aging" problem will occur sooner and more severely than in the U.S.

- A December 1996 International Monetary Fund report compared the "elderly dependency ratio" across most of the advance industrialized countries (see table below). The elderly dependency ratio is defined as the population age 65 and older as a percentage of the population age 15 to 64.

Elderly Dependency Ratio (Percent)

	1995	2000	2010	2020	2030	2050
United States	19.2	19.0	20.4	27.6	36.8	38.4
G7 Average	21.4	22.8	26.5	33.6	42.2	47.3
Germany	22.3	23.8	30.3	35.4	49.2	51.9
France	22.1	23.6	24.6	32.3	39.1	43.5
Italy	23.8	26.5	31.2	37.5	48.3	60.0
United Kingdom	24.3	24.4	25.8	31.2	38.7	41.2
Sweden	27.4	26.9	29.1	35.6	39.4	38.6

Source: "Aging Populations and Public Pension Schemes, Sheetal K. Chand and Albert Jaeger, International Monetary Fund Occasional Paper No. 147.

✯ BUDGET FACTOID ✯

The *Bulletin* notes with some interest that the French budget, unveiled on September 24, achieves in large part its 3% deficit of GDP Maastricht goal next year by cutting defense and increasing taxes -- primarily a broad based tax, while trying to reduce the social security payroll tax.

EU GOVERNMENT FINANCIAL BALANCES
(surplus or deficit as a % of nominal GDP)

	1993	1994	1995	1996	1997[A]	1998[A]
United States	3.9	3.0	2.3	1.4	-0.4	-0.7
Germany	-3.5	-2.4	-3.6	-3.8	-3.2	-2.7
France	-5.6	-5.6	-5.0	-4.2	-3.2	-3.0
Italy	-9.7	-9.6	-7.0	-6.7	-3.2	-3.8
UK	-7.8	-6.8	-5.5	-4.4	-2.8	-1.8
Austria	-4.2	-4.8	-5.3	-3.9	-3.0	-3.4
Belgium	-7.5	-5.1	-4.1	-3.4	-2.8	-2.7
Denmark	-3.9	-3.4	-1.9	-1.6	0.0	0.7
Finland	-7.9	-6.2	-5.1	-2.6	-2.0	-1.4
Greece	-14.2	-12.1	-9.2	-7.4	-5.2	-4.0
Ireland	-2.5	-1.8	-2.1	-0.9	-1.2	-1.0
Netherlands	-3.2	-3.4	-4.1	-2.4	-2.3	-1.7
Portugal	-6.8	-5.7	-5.0	-4.0	-2.9	-2.8
Spain	-6.8	-6.3	-6.6	-4.5	-3.0	-2.6
Sweden	-12.3	-10.3	-7.7	-3.6	-2.1	-0.2
EU Average[B]	-6.5	-5.8	-5.2	-4.4	-3.0	-2.6

[A]Projected Figures; [B]Excluding Luxembourg; SOURCE: Bond Week/OECD

CALENDAR

October 21: Impact of EMU on US Economy. Witnesses include: Deputy Treasury Secretary Summers, C. Randall Henning of the Institute for International Economics (IIE). Dirksen 608; 10:00 am.

October 22: Education Task Force meeting, Dirksen 608; TBA am. International Affairs Task Force meeting, Dirksen 608; TBA pm.

October 23: Europe's Long-Term Fiscal Challenge (Pensions): Lessons for the US. Witnesses include: Koen De Ryck, President, Pragma Consulting, Brussels and Richard Disney (tentative), Institute for Fiscal Studies, London. Dirksen 608; 10:00 am.

SHOW ME THE MONEY

- Although all good budgeteers know there is no surplus yet, and the *Bulletin* urges caution to all those who have already found ways to spend this assumed surplus, we will share a NBC/WSJ poll asking Americans how they think a surplus should be spent.

- The results from the September 19 poll indicate that 49% support using the money for education and health care, 25% favor paying down the national debt, and cutting taxes came in third with 21% of respondents urging that course of action. Additionally the poll found that by 55% to 23% Americans approve of the Balanced Budget Agreement.

- Also of note as the Budget Committee begins a task force looking at Social Security reform, the poll indicated that 83% of people already support major changes to the Social Security system.

MOVERS & DELIVERIES

MOVER: SBC staffer, Ricardo Rel is moving back to his native New Mexico after 7 years with the budget committee. Ricardo will work as a special assistant to the NM Secretary of Agriculture.

DELIVERY: The *Bulletin* is pleased to announce the birth of a new budgeteer: Andrea Gatta Shank gave birth to a baby boy, Joseph Anthony Shank, on August 12. Andrea has worked on the committee since 1990 and will now become a full time mother.

Senator Domenici and the Budget Committee staff would like to thank Ricardo and Andrea for their years of hard work. Their expertise and experience is immeasurable, they will be greatly missed. We wish them the best in their new endeavors.

EDITOR'S NOTE: The first GAO report to Senator Frist and the Education Task Force is now available. Issued September 15, the report explores major issues affecting post-secondary education, school to work, and youth employment programs. For a copy please contact GAO, the report's identification number is B-277901.